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RUEHUNV/USMISSION UNVIE VIENNA PRIORITY 0066
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RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC PRIORITY 0505
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 04 TEGUCIGALPA 002048

SIPDIS

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STATE FOR EB/ESC, WHA/EPSC, WHA/PPC, AND WHA/CEN
STATE FOR D, E, P, AND WHA
TREASURY FOR DDOUGLASS
STATE PASS AID FOR LAC/CAM
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E.O. 12958: DECL: 10/27/2016

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SUBJECT: HONDURAN FUEL BID: TRAFIGURA MAY INCREASE STAKE
IN DIPPSA; A FREE MARKET PLAN UNDER CONSIDERATION

REF: TEGUCIGALPA 1935 AND PREVIOUS

Classified By: Classified By: AMB Charles Ford for reasons 1.4 (b) and
(d)

1.(C) Summary: With only one week remaining until responses are due to the GOH fuel bid, Trafigura Beheever is attempting to increase their stake in Honduran fuel retailer DIPPSA. The move would position Trafigura as a leading candidate to win the bid, despite Texaco,s reluctance to allow use of their strategic northern terminal and storage facilities. Likewise, fuel oil (bunker) provider Glencore International is rumored to be considering a bid, which could position the two companies to dominate the Honduran fuel market, perhaps with the help of Venezuelan state fuel company PDVSA. Post has begun building consensus for a possible exit strategy that promotes a free market in fuels, if and when the bid fails to identify a clear winner. With world fuel prices tumbling, now could be the best time for the GOH to find a real solution to the country,s high fuel prices and market distortions. End Summary.

12. (U) The Honduran national request for bids for all the country,s fuel requirements was released October 11, and responses are due on November 1. At that point the GOH will have 10 days to evaluate the bids received, with the help of the newly formed fuel regulatory committee (CAP) and a select group of five people yet to be chosen. The companies, offers will be evaluated principally on landed price, but considerations will be made for companies that allow credit and provide for their own terminal and storage facilities. If a winner is selected, the contract would need to be approved by Congress, where opposition party congressman are expected to make a stand and a legal battle involving business groups most likely will ensue. The looming battles have led many to believe that the national bid is headed for failure (reftels).

DIPPSA MAY BE POSITIONING TO BID WITH TRAFIGURA

¶3. (C) Honduran fuel importer, distributor and retailer DIPPSA remains the centerpiece of the bid. Their strategically located terminals and storage facilities would enable a bidder to handle a significant percentage of Honduras, requirement for mogas (motorgas, including diesel, premium and regular gasoline). DIPPSA,s capacity in the north of 400 thousand barrels, however, is still not enough to store all the region,s required fuel; Texaco,s much more advanced terminal and storage capacity of 800 thousand barrels would be required. While DIPPSA,s terminal and similar 400 thousand barrel storage capacity in the south may be sufficient for the region, Exxon/Mobil owns 50 percent of the storage tank farm and has first option to buy the remaining tanks in the event of a proposed sale. The southern facilities offer easy access to Nicaragua and El Salvador though the Central American highway.

¶4. (C) With Texaco and Exxon/Mobil refusing to participate in the bid, DIPPSA has become the only clear option to make the bid work, at least in mogas. The GOH has moved aggressively to make DIPPSA cooperate. DIPPSA owner Henry Arevalo has consistently maintained that the GOH has withheld payments supporting a government-instituted mogas price freeze in an effort to force him to participate in the bid. Arevalo showed EmbOff October 25 debts to banks totaling over USD 10 million that he cannot pay because the GOH owes him roughly the same in back payments. Additionally, Arevalo alleged to Ambassador and EmbOff October 23 that SurOil, the company managing the bid process, attempted to negotiate a deeply discounted fuel storage fee for the eventual bid winner. Arevalo subsequently announced publically that he would not

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negotiate for fuel storage with the GOH, offering instead to negotiate directly with the winner of the bid. (Comment: This may indicate that SurOil is getting desperate and realizes that, unless a price discount can be found in storage, any fuel bid would not deliver the advertised savings of almost five lempira, or 25 US cents, per gallon. End Comment).

¶5. (C) Previously, Arevalo had described a deal with London (and Holland) based fuel trader Trafigura Beheer that included administrative control of Trafigura,s 27 Puma gasoline stations by DIPPSA while Trafigura would source the two companies, combined fuel requirements. The deal was confirmed by the Honduran Exxon representative (Note: Exxon currently sources fuel for DIPPSA. End Note). A larger deal involving a 50 percent purchase by Trafigura was scuttled because, per Arevalo, the risks involved in the national fuel bid were too high. During the October 23 meeting Arevalo reconfirmed the deal to Ambassador. On October 24, Arevalo sent an email to Ambassador indicating that the 50 percent purchase by Trafigura that he had declared abandoned had now closed, despite indications to the contrary only hours before. (Comment: While Arevalo claims that money has changed hands, several other parties have indicated that only an MOU has been signed. Given Arevalo,s penchant for exaggeration in the past, an MOU is the most likely scenario. End Comment).

¶6. (C) On the same day, October 24, unfounded rumors began to surface that Post had cancelled Arevalo,s visa. EmbOff received a call at 8pm from a contact of Adrien Reca, who described the Argentine businessman/con artist as &in a panic over the rumors, which he believed were somehow tied to negotiations with Venezuelan state fuel company PDVSA. Similarly, Ambassador received a call from Presidential confidant and political dealmaker Arturo Corrales on the same subject. (Comment: It is unclear where the rumor started, but the effect has apparently been to cause all parties involved with DIPPSA to think twice about potential repercussions. End Comment).

¶7. (C) On October 26 EmbOff talked with Guillermo Bueso, the

head of leading Honduran bank Banco Atlantida, which holds an option on 10 percent of DIPPSA shares and has at least some measure of influence over another 10 percent option controlled by Honduran rival bank Occidental. Bueso indicated that DIPPSA could not sell 50 percent to Trafigura without his approval, and that he will ask Arevalo to take at least two months to complete a due diligence analysis of Trafigura. While Trafigura's history is indeed suspect (bribery allegations in Jamaica, illegal dumping of toxic substances in the Ivory Coast, sketchy dealings with PDVSA, and a UN-Iraq oil-for-food scandal lead the list), Bueso's request for two months would put a deal outside the timing of the fuel bid and potentially eliminate a low ball proposal that leveraged DIPPSA assets. (Comment: Trafigura has also been linked to the U.S. citizen consultant that runs SurOil. He confirmed to an Embassy contact that he continues to hold "less than 10 percent" interest in Trafigura. A clear conflict of interest would appear to exist if Trafigura bids and wins a part of the estimated USD 1 billion a year fuel bid that he and SurOil masterminded. End Comment).

GLENCORE COULD BID FOR BUNKER

18. (C) In related action, the Exxon representative said that Switzerland-based fuel oil (bunker) trader Glencore International may be considering a bid. Bunker represents about 40 percent of the 15.7 million barrels of fuel that is included in the fuel tender, and Glencore already has about 85 percent of that market through agreements with thermal energy providers Schukry Kafie and Freddy Nasser. In

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conversations with EmbOff, however, the two discounted the possibility of a Glencore bid, saying that they did not want to deal with the GOH.8 Media reports had indicated that Kafie's Luffusa 2 and Luffusa 3 plants could be used to store bunker for the winner, but Kafie quickly contacted Post and refuted that allegation. Like mogas, any bid for bunker faces a problem given that the majority of the terminal and storage infrastructure is privately owned.

19. (C) In an October 25 meeting with Ambassador, Freddy Nasser confided that his firm was set to make a bid for bunker, but one that would be on the high end of the pricing scale.8 The strategy would give him political cover while positioning him well if the bid does succeed. Nasser in this sense could be working with Glencore to engineer a combined bid, perhaps using his Hondupetrol fuel company as a front while keeping Glencore as his source. While there are no confirmed talks or connections between Glencore and Trafigura regarding a Honduran bid, the two companies have historic connections (Note: The current owners of Trafigura previously worked for Marc Rich's Glencore. End Note).

PLAN B BEGINS TO MATERIALIZE

110. (C) With Texaco refusing to participate either in the GOH bid process or as a supplier of storage capacity, the most likely scenario at this point is that the bid will fail to produce a clear winner, or the process will get mired down in protracted legal battles. If this happens, the GOH will need to show decisive action to avoid letting outspoken critics like the Patriotic Coalition's Juliette Handal regain the initiative. The common theme expressed by virtually all participants, including Honduran President Jose Manuel Mel8 Zelaya and presidential advisor Enrique Flores Lanza, is that the best way to reduce prices in the long run is through a liberalized market. How Honduras would arrive there after attempting to virtually nationalize fuel imports has always been unclear.

111. (C) In response, Post has been quietly building a

consensus for the idea of creating a week-long seminar that includes all the fuel chain stakeholders with the goal of creating a draft law that paves the way to a liberalized market. We continue to emphasize to the GOH that this could still be portrayed as a political victory for them. The GOH could take control of the agenda by expressing, correctly, that they have exhausted all means of making the current bid process work and now want to pursue the only real way to lower prices at the pump. More competitive markets in El Salvador and Guatemala would clearly show that potential savings of up to 10 US cents are possible. (Comment: President Zelaya inherited the national bid from the prior administration of Ricardo Maduro. Blaming Maduro for the failure would shift the blame to the opposition party while allowing Zelaya to show he can stand up to the U.S., comply with CAFTA-DR, extract "concessions" from the powerful transnationals, and deliver real savings at the pump. End Comment).

¶12. (C) While Post had been considering a 1996 proposed law as a blueprint for the Plan, World Bank representative Danti Mossi told EmbOff that a more recent free market for fuels bill was drafted in 2005 but was lost in the noise surrounding the national bid. Mossi agreed it was time to resurrect the effort, and said funding was available for the World Bank to sponsor a seminar to include a facilitator and several fuel experts. The effort would need to be specifically requested by the GOH, however, and Mossi and EmbOff agreed that presidential advisor Yani Rosenthal would be the most likely candidate to request the effort. Post will approach Rosenthal soonest to gauge his receptivity to

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the idea. The recently formed Competition Commission could draft the law and confirm its consistency with the Competition law (Note: Competition Commission head Marlon Pascua was also the Congressman that introduced the proposed 1996 fuels liberalization law. End Note).

¶13. (C) To test buy-in on the plan, EmbOff contacted the representatives of Shell, Exxon and DIPPSA, and found all in favor of pursuing this strategy. Through conversations with their dealer networks, they believed the gasoline station owners would also agree to participate, as well as the trucker unions. Additionally, EmbOff contacted rainmaker Arturo Corrales, who appeared interested in the plan and requested a more detailed briefing, and banker Guillermo Bueso, who supported the idea. Both actors are closely linked to Zelaya and could be instrumental in selling the plan to the President.

¶14. (C) COMMENT. While Arevalo continues to jump from deal to deal like a blind dog in a meat house, the GOH grows more desperate. Meanwhile, Trafigura may be using the uncertainty surrounding the national bid as an opportunity to pick up on the cheap a potentially key component in their regional strategy, DIPPSA. If the deal is solely about business, a Trafigura/DIPPSA alliance could actually help bring more competition to the region. More likely, however, is an illicit collusion between the bid architect and Trafigura that seeks to maximize short term profit potential and may be supported by PDVSA and Venezuelan President Hugo Chavez, regional designs. A bid failure may be the best and most likely outcome, and a strong move by Zelaya on the free market Plan B may in the end work to his favor. END COMMENT.
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